



Arizona Treasurer's Report

State Treasurer Jeff DeWit

November 2017

The Arizona State Treasurer's Office protects taxpayer money by serving as the state's bank, record's administrator, and fiduciary agent, providing investment management, financial information and services. The office currently manages Arizona's more-than \$13 billion investment portfolio which includes moneys for State Agencies, Local Governments and the Arizona Land Endowment Fund. Our fiscal year, which ended June 30, 2017, resulted in the following key accomplishments.

Year-End Returns: 2017 saw increased performance across all investment pools. Thanks to strategic portfolio management and Fed rate hikes in FY2017, all State and LGIP funds saw increases in earnings. The LGIP Pool 5 yield alone increased more than 138% year-over-year.

2017 Distributions: Treasurer DeWit is proud to announce State and LGIP investment distributions totaled \$73,436,632 in FY2017. A \$20 million increase from FY16.

Maintaining Security: The LGIP Pool 5 received the highest rating possible from Standard & Poor's under recently revised and more stringent rating criteria. "This is a testament to the hard work of portfolio manager Dennis Stevenson, who anticipated the new criteria and helped the fund achieve the highest rating," said Treasurer DeWit.

ENDOWMENT PERFORMANCE

The PLETF saw increased performance in FY2017. Total endowment returns were **11.25%**, lead by our in-house strategy to diversify and invest in domestic U.S. equities and fixed income. Comparing the endowment portfolio to its respective benchmark, the PLETF outperformed by 12 basis points.

SAFETY

LIQUIDITY

YIELD

"I am so proud of our hardworking staff that our record-breaking streak continues. Our conservative in-house investment management philosophy produces great earnings for schools and taxpayers alike," Treasurer DeWit said, adding "Record funds distributed while still reaching all-time highs in total market value is proof that we are making Arizona's finances great again!"

-Treasurer DeWit August 3, 2017 press release

ENDOWMENT DISTRIBUTIONS

2017 saw more money go to schools than ever before. The PLETF distributed \$289,935,195 across all of its beneficiaries this year while reaching an all-time high in year-end market value at \$5,612,413,501. Treasurer DeWit made a statement in an August press release detailing the recent success. Full press release is available at aztreasury.gov.



Office of The Arizona State Treasurer
1700 West Washington
Phoenix, AZ 85007

Phone: 602-542-7800
Fax: 602-542-7176
Email: Info@aztreasury.gov



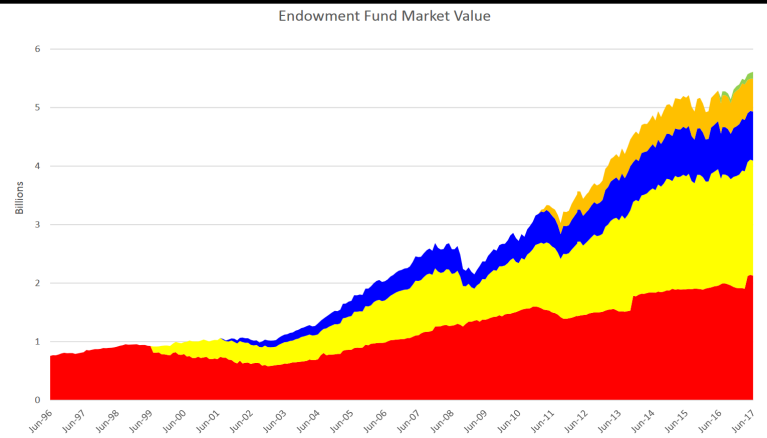
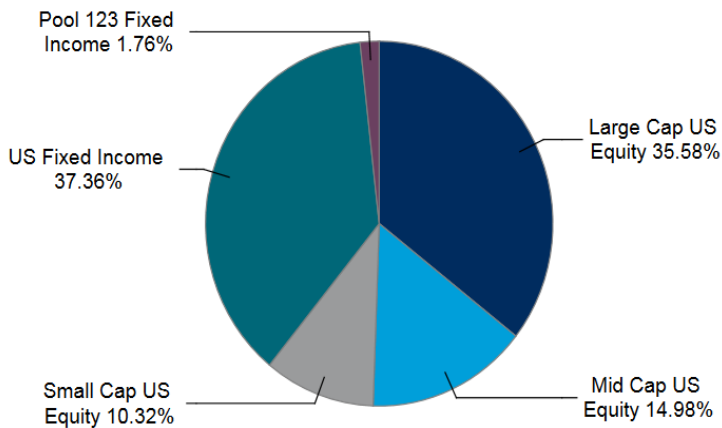
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The Permanent Land Endowment Trust Fund

Historic Achievements:

September 30, 2017 the PLETF reached a new all-time high Market Value of
\$5,734,732,771



Did you know?

The PLETF hasn't always invested in the stock market. Prior to 1999 the fund was 100% fixed income. Large-cap stocks weren't added to its investment mix until 1999. Mid-cap and small-cap stocks arrived in 2001 and 2011 respectively.

Endowment Facts & Statistics (09/17)

- Avg. Annual Return since inception: 6.46%_(07/99)
- The Endowment has continued its success, reporting 2.91% returns in the first three months of FY18. That brings returns up to 8.24% for 2017 calendar year-to-date and 11.38% for a trailing 12 months.
- Pool 123 was created in June 2016. This pool serves to manage the cash needed for the increased monthly distributions due to the passing of Proposition 123.
- Distributions in the first quarter totaled \$79,532,699. This puts FY2018 on pace to have more funds distributed than ever before. If not for the increased Proposition 123 distributions, the endowment would be worth more than \$6 billion and still paying out record amounts.
- The portfolio manager for the endowment is Tim White. Tim has been managing the PLETF since the introduction of equities to the portfolio in 1999.

"After beating most university endowments in 2016, the winning streak continues for our schools' Endowment."

-Treasurer Jeff DeWit



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Fax: 602-542-7176
Email: Info@aztreasury.gov



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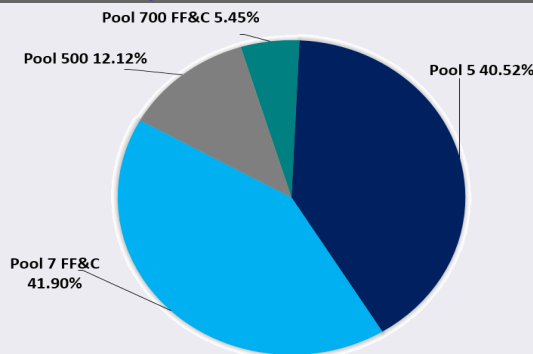
Local Government Investment Pools

Pool 5 & 7

- ◆ Short-term, money market type investments.
- ◆ Both pools are very liquid. More than 90% of each pool is invested in cash equivalent securities.
- ◆ Pool 5 carries highest S&P Rating at AA+.
- ◆ Pool 5 September 2017 Yield: 1.07%
- ◆ Pool 7 only invests in securities backed by the full faith & credit of the US Government.
- ◆ Pool 7 September 2017 Yield: .96%
- ◆ Yields have consistently grown in-line with current market trends thanks to our short duration strategy.



Est. 1980



September AUM:
\$2,679,419,598

100% Liquidity To Participants

Eligible government participants include cities and towns, counties, special taxing districts, municipal corp., community and technical colleges, and four year universities.

Current LGIP participants include:

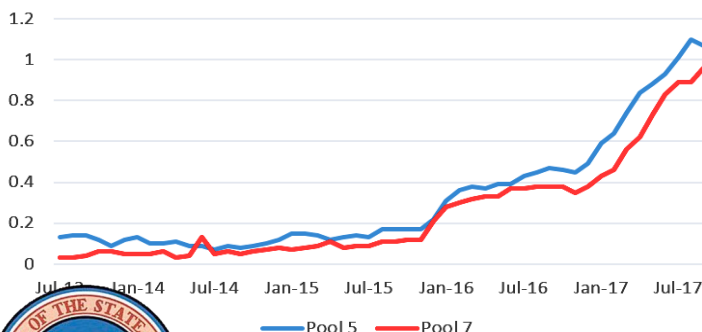
- 82 Cities & Towns
- 48 Special Taxing Districts
- 11 Counties
- 7 Community Colleges & Universities
- 5 State Agencies
- State Operating Fund

Pool 500 & 700

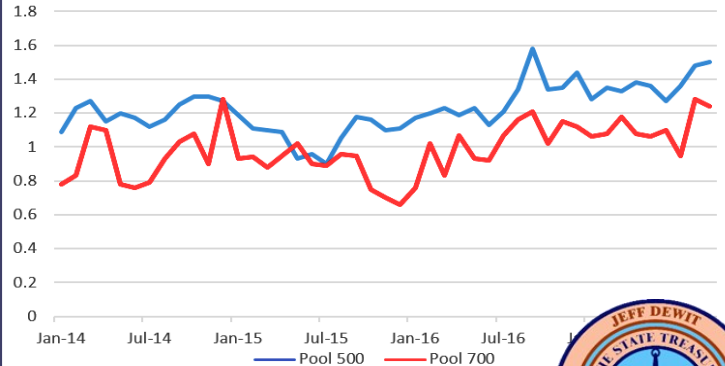
- ◆ Medium-term bond funds. Both funds utilize a floating NAV
- ◆ Pool 500: 100% of assets are investment grade. Effective duration: 1.29 years
- ◆ Pool 700 only invests in asset back by the full faith & credit of the US Government. Effective duration: 1.98 years.
- ◆ Due to differences in credit-ratings of underlying investments, Pool 500 consistently provides a higher yield with slightly additional risk.



Yield



Yield



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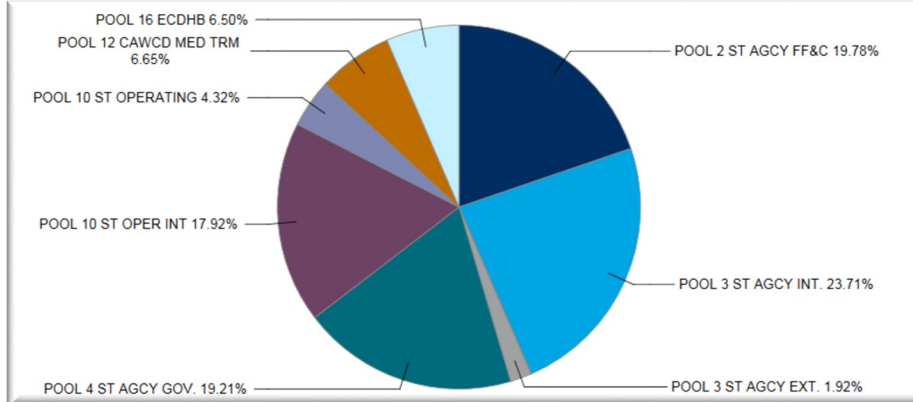
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State Agency Investment Pools

SUMMARY

The state agency investment pools operate to invest the State's money. The source of the investment deposits can range from tax revenues, aggregate state agency moneys, separately managed agency accounts or other miscellaneous fees. **Total State Assets: \$5,461,471,458.**



MONTHLY YIELD

As-of Sept. 30, 2017:

◇ Pool 2:	1.16%
◇ Pool 3:	1.44%
◇ Pool 4:	1.21%
◇ Pool 9A:	1.16%
◇ Pool 10:	1.46%
◇ Pool 12:	1.69%
◇ Pool 16:	1.89%



MARKET COMMENTARY FROM OUR CIO

As a manager of public monies we never forget that the money we manage belongs to the Arizona Taxpayer, and we are charged to protect and manage those funds. Managing the funds requires us to balance risks with returns. With bond yields held so low for so long, the ability to find yield with low risk in the bond market has become one of our top priorities. Currently we are managing the bond funds to a shorter duration than that of the individual benchmarks. We made this decision to help protect the principal value of the funds. When the yields of the bond market rise, the value of the bonds drop. Keeping the duration short allows us to protect the value of the current bonds held in the funds, and the ability to take advantage of the new higher rates when they occur.

-Patty Humbert, CIO



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